ANNUAL REPORT 1967

BORDEN™

The Borden Company Annual Report 1967

HIGHLIGHTS	1967	CHANGE	1966
Net sales	$1,588,426,036	+ 2.8%	$1,545,509,820
Net income	$ 55,300,644	— 4.1%	$ 57,659,654
per share	$2.00	— 7.4%	$2.16
Cash dividends	$ 33,186,940	+ 3.8%	$ 31,978,143
per share	$1.20		$1.20
Working capital	$ 320,064,885	+37.9%	$ 232,182,719

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BOARD OF DIRECTORS

HARRY L. ARCHER, *Former Vice Chairman*

COURTNEY C. BROWN, *Dean*
Graduate School of Business
Columbia University

WALKER G. BUCKNER
Partner in investment firm, Buckner & Co.

HAROLD W. COMFORT, *Former President*

FRANCIS R. ELLIOTT, *Chairman*

JAMES D. FINLEY, *Chairman*
J. P. Stevens & Co., Inc.

J. ROY GORDON, *Director*
The International Nickel Co. of Canada, Ltd.

MADISON H. LEWIS, *Former Chairman, East District*

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WALTER R. OLMSTEAD, *Executive Vice President*

EDWIN S. PATIENCE, *Vice President and Treasurer*

WILLIAM S. RENCHARD, *Chairman*
Chemical Bank New York Trust Company

EUGENE J. SULLIVAN, *Executive Vice President*

LAWRENCE A. WIEN,
Member of law firm, Wien, Lane, Klein & Malkin

ROY D. WOOSTER, *Former Chairman*

EXECUTIVE COMMITTEE:

Mr. COMFORT, *Chairman;* Messrs. ARCHER, ELLIOTT, GORDON, LEWIS, MARUSI, RENCHARD and WOOSTER, permanent members. Other Directors serve in rotation.

FINANCE COMMITTEE:

Mr. WOOSTER, *Chairman;* Messrs. COMFORT, ELLIOTT, LEWIS, MARUSI, PATIENCE and RENCHARD.

COMMITTEE ON AUDIT:

Mr. GORDON, *Chairman;* Messrs. BROWN, BUCKNER, FINLEY, RENCHARD and WIEN.

PENSION COMMITTEE:

Mr. WOOSTER, *Chairman;* Messrs. ARCHER, COMFORT, ELLIOTT, LEWIS, MARUSI, OLMSTEAD, PATIENCE and SULLIVAN.

OFFICERS

AUGUSTINE R. MARUSI, *President*

FRANCIS R. ELLIOTT, *Chairman*

WALTER R. OLMSTEAD, *Executive Vice President*

EUGENE J. SULLIVAN, *Executive Vice President*

THOMAS W. BIGGS, *Vice President*

EDWIN CLARK DAVIS, *Vice President*

THEODORE G. MONTAGUE, JR., *Vice President*

JOHN J. O'CONNOR, *Vice President*

EDWIN S. PATIENCE, *Vice President and Treasurer*

JACK B. PENTZ, *Vice President*

HUBERT M. TIBBETTS, *Vice President*

DOUGLAS T. ORTON, *Secretary*

PHILIP S. CAMPBELL, *Assistant Vice President*

LOUIS CSENGE, *Assistant Vice President*

HARRY N. WEBSTER, *General Controller*

ROBERT G. BELL, *General Auditor*
and Assistant Treasurer

RICHARD J. McGOLDRICK, *Assistant Treasurer*

KENNETH J. NEAGLE, *Assistant Secretary*

BOARD OF OFFICERS:

Mr. MARUSI, *Chairman;* Messrs. BIGGS, DAVIS, MONTAGUE, JR., O'CONNOR, OLMSTEAD, ORTON, PATIENCE, PENTZ, SULLIVAN, TIBBETTS, and MILLS L. MARRS, *President, The Borden Company, Limited.*

CORPORATE DATA

EXECUTIVE OFFICES: *350 Madison Avenue, New York, N. Y. 10017*

COUNSEL: *Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, N.Y. 10005*

CAPITAL STOCK DATA: *Transfer Agent, The Chase Manhattan Bank, N.A., 1 Chase Manhattan Plaza, New York, N. Y. 10015; Dividend Disburser, The Borden Company, 350 Madison Avenue, New York, N. Y. 10017; stock listed on the New York Stock Exchange*

Message to Stockholders and Employees

The year 1967 saw several significant changes at Borden. A new management — the 12th in our 111-year history — assumed direction of the Company's affairs. A new management concept was introduced with the formation of the Office of the President. We are inaugurating, with this Annual Report for 1967, the practice of reporting the operating profits of each of our Divisions and of our Canadian company. We set in motion a long-range program whose purpose is to position Borden in the public mind as a manufacturer and distributor of a broad range of dairy, food, and chemical products, and to relate these products to the parent Company and to each other through application of our new corporate symbol, whose design appears on the cover of this Report.

Borden's new management is fully aware of the many fine achievements gracing the Company's long history, and of the policies and principles that made them possible. We shall retain all that is good from the past, change what is no longer timely, and add what is necessary to make Borden function efficiently and effectively in tomorrow's business community. The formation of the Office of the President is a move in this direction and has a three-fold purpose: to focus, through corporate policy, the diffused public image of Borden; to provide closer control of the decentralized management of the Company's increasingly diversified activities, and to broaden executive participation in short- and long-range corporate planning and in the evaluation and appraisal of operating performance. The President, as Chief Executive Officer, retains ultimate responsibility and accountability for reaching corporate objectives, but decisions affecting those objectives are the product of a group — the Office of the President — having complementary talents and knowledge.

The decision to disclose the profits of each of our four operating divisions and of our consolidated Canadian subsidiary, The Borden Company, Limited, was based upon several considerations. One was the desire to provide current and potential stockholders and the financial community with data from which to make sound investment decisions and recommendations. Another was the wish to avoid any risk of misrepresenting the relative importance of divisions by disclosing only their contributions to sales; until very recently, a division's percentage of total sales was a

Augustine R. Marusi

valid if imprecise measure of its relationship to profit performance. A third consideration was the desirability, in view of our new corporate identity program, of establishing in the public mind the distinct components of our business — dairy products, foods and chemicals — and the relative balance among them. A final consideration was the desire to respond voluntarily to the practice of disclosure being suggested by the New York Stock Exchange and the Securities and Exchange Commission.

Although disappointing, the decline in profits, which interrupted an upward trend dating from 1956, does not reflect upon the basic strengths of the organization. The organizational changes carried out in 1967, coupled with some strengthening of the national economy through at least the first half of 1968, should result in another new high in sales for the coming year and a return to record levels of profit. We are confident that 1968 will mark the starting point of a new series of year-to-year gains in sales and earnings.

We wish to express our appreciation to the men and women of the Borden organization, the members of the Board of Directors, and our stockholders for their efforts and support during the past year.

A R Marusi

February 27, 1968 — *President*

SALES

Our sales in 1967 were a record $1,588,426,036, a gain of 2.8% from the previous high of $1,545,509,820 set a year earlier. It was the ninth successive year of increased sales. Contributing to the improvement were a record volume of products handled and higher price levels. The higher prices reflected to some extent an improvement of our product mix, expansion of our consumer business, and improved sales of brand-name items. Most of the increase in prices, however, resulted from higher costs of raw materials, supplies, and labor. As occurs in a rising market, there was a lag in passing along increased costs; for several product categories, notably milk and fertilizers, market conditions prevented us from fully adjusting prices upward.

PROFITS

Profits declined to $55,300,644 from $57,659,654 a year earlier, a decrease of 4.1%. Earnings per share were $2.00 on 27,705,031 average shares outstanding, compared with $2.16 on 26,730,599 average shares outstanding in 1966. Our net profit per dollar of sales was 3.48 cents, against 3.73 cents the year before, when it reached a 27-year high. For the ten-year period through 1966 it averaged 3.09 cents.

The principal adverse factors responsible for the drop in earnings were the costs of closing down three plants and bad debts arising from the business failure of several of our customers.

Other major factors affecting our profit were strikes, and delays in the start-up of plants and equipment. These are discussed in more detail in the following pages of the Report.

Poor weather hurt our business. Severe winter storms early in the year forced a temporary shut-down of several of our operations as well as those of some principal customers; the resulting loss of sales was not fully recovered after operations resumed. An exceptionally cool and wet summer throughout most of the country, marked by a series of rainy weekends and holidays, affected our milk and ice cream business and some segments of our foods business.

Our net income benefited from reinstatement of the 7% investment tax credit in March. The credit reduced our tax liability for the year by $4,200,000 compared with a reduction of $3,700,000 in 1966.

SOURCES OF NET SALES AND PROFITS

	Net Sales *(000 omitted)*		**Profit** *(000 omitted)*	
	1967	1966	1967	1966
Chemical Division	$ 341,668	$ 327,866	$39,137	$36,569
Foods Division	452,656	414,801	26,676	24,048
Milk and Ice Cream Division	681,383	695,196	23,899	30,047
Drake Bakeries Division	41,508	39,838	3,535	3,532
The Borden Company, Ltd.	71,211	67,809	1,520	2,519
Corporate charges (net)*			(4,368)	(658)
Pre-tax profit			90,399	96,057
U.S. and Canadian federal income taxes			35,098	38,397
Total	$1,588,426	$1,545,510	$55,301	$57,660

*Includes dividends from foreign subsidiaries, profits and losses from disposals of real property, certain legal fees, and other corporate income and expenses not allocated.

DIVIDENDS

A cash dividend of 30 cents per share was paid quarterly during the year for a total of $1.20 per share, the same as in 1966. Dividend payments amounted to $33,186,940, or 60% of net income, compared with $31,978,143, or 55% of net income, a year earlier. The Dec. 1 dividend was our 231st consecutive payment, and brought our record of uninterrupted dividends to 69 years.

DEBENTURES ISSUED

An issue of $75,000,000 5¾% 30-year debentures of the Company was offered to the public by a nationwide underwriting group on June 13. Priced at par, it was oversubscribed by the following day.

Of the net proceeds of the sale, $62,000,000 was used to repay short-term indebtedness to banks. The remainder was added to working capital.

The debentures are nonrefundable for ten years. They will be retired through a sinking fund in annual amounts of $3,750,000 over a 20-year period from 1978 through 1997, inclusive.

WORKING CAPITAL

Current assets of $452,498,406 and current liabilities of $132,433,521 (a ratio of 3.42 to 1) left a balance on Dec. 31 of $320,064,885 as working capital, an all-time high. This was an increase of $87,882,166 from the preceding year, when working capital was $232,182,719 and the ratio of current assets to current liabilities was 2.60 to 1.

CAPITAL EXPENDITURES

We invested about $35,000,000 in new plant and equipment for our consolidated operations during 1967, of which depreciation and depletion accruals provided approximately $26,900,000 and retained earnings, $8,100,000. In addition, about $16,600,000 worth of equipment was obtained by lease.

The members of the Office of the President, which was formed during the year, examine some of the applications that are being made of both the new corporate symbol and the distinctively lettered "Borden" that it contains. From left: Augustine R. Marusi, President and Chief Executive Officer; Walter R. Olmstead, Executive Vice President, and Eugene J. Sullivan, Executive Vice President.

Calo Pet Food Company was acquired in April and its operations assigned to the Foods Division. Calo canned dog and cat foods are sold through grocery stores in 21 states in the East and West.

In 1968, we shall make the largest total direct capital investment for any year in our history, amounting to approximately $55,500,000. Depreciation and depletion accruals will furnish about $29,100,000, and the remaining $26,400,000 will come from retained earnings. Our past practice of securing substantial amounts of plant-equipment through lease has been discontinued. In the immediate future, leasing arrangements will be limited to vehicles, refrigerated cabinets, and other short-lived equipment; in 1968, approximately $9,700,000 worth of such equipment will be leased. Prevailing high interest rates on long-term leases, and the availability of cash from the debenture issue, prompted the adoption of this new approach.

COMPANY OWNERSHIP

There were 27,891,000 shares of capital stock outstanding on Dec. 31, compared with 27,256,000 on the same date a year earlier. At year end we had 74,505 stockholders of record, up from 70,853 on Dec. 31, 1966. Part of the increase in both shares and number of stockholders was due to the issuance of shares to employees who became stockholders under our Employees Stock Purchase Plan.

The average holding of all stockholders of record was 374 shares, compared with 385 shares in 1966. Our records show no individual holding as much as 1% of the outstanding stock.

For businesses acquired during the year we issued 337,480 shares of our stock. We also issued 38,463 shares under the Company's stock option plans and 258,686 shares to active and retired employees and beneficiaries of deceased employees under the Employees Stock Purchase Plan. We purchased 644 shares for our treasury.

EMPLOYEE BENEFITS AND SAFETY

As of July 31, we issued 256,048 shares of stock to employees who subscribed to the 1965 offering under the Employees Stock Purchase Plan and paid for the shares by payroll deductions over a two-year period.

Benefit payments to employees and their beneficiaries under our Company-sponsored group insurance and retirement income plans in the year ended March 31 increased 7.6% from the prior year to $9,037,163.

Membership in Borden's Quarter Century Club increased to 7,941; of these, 4,016 are retired employees. There were 506 new members inducted; three employees were honored for 50 years of service, and 106 for 40 years of service.

In 1967, we recorded the lowest frequency rate of vehicle accidents, and the second-lowest rate of disabling employee injuries, in our history.

NEW STOCK OPTION PLAN

Subject to stockholder approval at the Annual Meeting on April 17, 1968, the Board of Directors, on Dec. 26, adopted a 1967 Stock Option Plan under which qualified options could be granted for a maximum of 150,000 shares of the Company's capital stock over a

A new manufacturing plant for Old London snack foods went into operation in New York City early in 1968; highly automated, it has a capacity 80% greater than three facilities in the area that it replaced. Shown below are the silo bins for storing raw materials (left), bread baking ovens for Melba toast (center), and conveyors for transporting pans of bread from ovens to automatic de-panners (right).

A new development in milk packaging is the reusable plastic gallon container, which combines features of both glass and plastic that benefit consumer and processor alike. In Borden's milk plant at Stratford, Conn., the containers are shown entering the washing machine (top) and being automatically filled and capped (bottom).

five-year period. The Board, on Dec. 26, granted options for 84,000 shares at $32.19 per share (100% of fair market value) to 29 key officers and employees.

LITIGATION

In July, the Fifth Circuit Court of Appeals unanimously again set aside an order of the Federal Trade Commission that Borden "cease and desist" from "unlawful price discrimination" in its prices for Borden brand and private label evaporated milk. In its ruling, the Court held that no violation of the Robinson-Patman Act had been shown, because the price differences did not create a competitive advantage by which competition could be injured and, furthermore, no customer had been favored over another. In 1964 this same Court had also ruled in the Company's favor on another ground of defense, but the Supreme Court reversed the decision in March, 1966. The 1967 decision in favor of the Company is final, as the government did not seek further review by the Supreme Court.

In the course of an investigation of the fluid milk industry in New York City, a New York County Grand Jury in May indicted two officials of the Company's New York City fluid milk operations for perjury, charging that their testimony to the Grand Jury differed from that of other witnesses and from other information presented to the jury. In December, a New York County Grand Jury indicted Borden and 18 other milk distributors, charging a combination in restraint of trade in violation of New York State anti-trust laws and certain violations of the New York Penal Code in connection with the sale of milk in New York City. Also named in this indictment were 33 individuals, none of whom is an employee of the Company. Borden interests are being vigorously represented.

In addition, there was the normal litigation arising from our day-to-day operations as well as certain of those matters pending from prior years and referred to in previous annual reports.

PROMOTIONAL ACTIVITIES

The September issue of Reader's Digest carried the largest single advertisement ever placed by the Company in print media. The eight-page, full-color ad, featuring the Fischer quintuplets, covered 17 products of the Foods, Milk and Ice Cream, and Chemical Divisions. Twenty-one consumer products of these Divisions were supported in daytime television advertising over the N.B.C. and A.B.C. networks during the first half of the year.

In 1968, the Company will participate for the first time in a major television news program, the Huntley-Brinkley Report on the N.B.C. network. Full-color commercials will promote selected products of the Milk and Ice Cream, Foods, and Chemical Divisions.

During the year, virtually all means of communication were used collectively by Divisions in encouraging the public to buy their products. Media included national and local radio and television, newspapers, consumer and trade magazines, Sunday supplements, coupons, professional society meetings, trade shows, samplings, and bill-inserts to department store charge customers.

MANAGEMENT CHANGES

A major realignment of executive responsibilities took place during the year, leading up to the formation in November of the Office of the President, a new concept of management for Borden. The Office of the President consists of the President, who is also Chief Executive Officer, and the two Executive Vice Presidents. Performing as a unit, it is responsible for short- and long-range corporate planning and for all operations and supporting functions of the Company, including unconsolidated operations abroad.

Augustine R. Marusi was elected President effective Feb. 1, succeeding Francis R. Elliott, who was elected Chairman of the Board. Effective Nov. 1, Mr. Marusi was named Chief Executive Officer, succeeding Mr. Elliott, who continues as Chairman.

Mr. Marusi, a chemical engineer, joined Borden in 1939 and was appointed President of the Chemical Division in 1954. The following year he was elected a corporate Vice President and, in 1959, a Director. In 1964 he was elected an Executive Vice President, the position he held at the time of his election as President.

Formation of the Office of the President was announced Nov. 28 with the election on that date of Walter R. Olmstead and Eugene J. Sullivan as Executive Vice Presidents. In these positions, Mr. Olmstead is responsible for the Foods and Drake Bakeries Divisions and The Borden Company, Limited, our consolidated Canadian subsidiary, and Mr. Sullivan is responsible for the Milk and Ice Cream and the Chemical Divisions.

Mr. Olmstead joined Borden in 1937. Following four years with its ice cream operations, he transferred to the international operations of the Foods Division, where he served for 23 years prior to his appointment as President of the Foods Division and election as a corporate Vice President in October, 1964. Mr. Sullivan, who joined the Company in 1946 as a sales trainee, subsequently served in sales and managerial capacities with several departments of the Chemical Division, and was named President of the Chemical Division in October, 1964, at which time he was also elected a corporate Vice President.

On Nov. 28, John J. O'Connor was named to succeed Mr. Sullivan as President of the Chemical Division, and Hubert M. Tibbetts was named to succeed Mr. Olmstead as President of the Foods Division. Both men were elected corporate Vice Presidents on Dec. 26.

Unit sales of Resinite *polyvinyl chloride (PVC) packaging film increased almost 50% in 1967. Borden is the leading producer of PVC films, used principally for in-store packaging of meats and produce.*

Mr. O'Connor joined the Chemical Division in 1947, and from 1951 to 1958 headed Borden's chemical operations in Brazil. In 1966, he was named an Executive Vice President of the Chemical Division, the position he held at the time of his appointment as its President. Mr. Tibbetts came to the Foods Division in 1963 as Vice President in charge of marketing, follow-13 years' experience with two food companies and an advertising agency. He was Executive Vice President of the Foods Division in charge of domestic operations at the time he was named President of the Division.

Milton Fairman resigned as a Vice President on Dec. 26 and retired as an employee on Dec. 31, after 30 years of service. Appointed Director of Public Relations in 1943, he was elected a Vice President in 1963.

CHANGES IN BOARD

At the Annual Meeting on April 19, James D. Finley, Chairman of the Board of J. P. Stevens and Co., Inc., was elected a Director of the Company. He succeeded Howard C. Sheperd, former Chairman of First National City Bank, New York, and a Director since 1959, who retired on April 19 at the expiration of his term. His retirement was in accordance with an understanding

with Directors whereby they do not stand for re-election after reaching 72 years of age.

Walter R. Olmstead and Eugene J. Sullivan, Executive Vice Presidents, were elected to the Board of Directors on Dec. 26, filling vacancies created by the death of Theodore G. Montague, Sr., and the resignation of Lester Le Feber.

Mr. Montague, who died Aug. 13 at the age of 69, had served as President from 1937 to 1956, and subsequently as Chairman of the Board until his resignation from that position in 1964. He was first elected to the Board in 1937. He joined an evaporated milk company in his native Wisconsin in 1919 as a clerk and rose to president; later, with associates, he purchased the Kennedy Milk Company of Madison, Wisc., and was its president when the firm was acquired by Borden in 1928.

Mr. Le Feber, who resigned Dec. 26 for reasons of health, and who would not have been eligible for re-election in April, 1968, because of age, was the senior Director in point of service, having been a member of the Board for 32 years. He began his career as a milk routeman for the family-owned Gridley Dairy Company in 1914, and was its Vice President when the firm was acquired by Borden in 1928. He was President of the Gridley Dairy operations when he retired as an employee in 1939.

Harry L. Archer relinquished his position as Vice Chairman of the Board on Dec. 26, and is now on special assignments. He continues as a member of the Board, to which he was elected in 1962. Mr. Archer was appointed President of the Milk and Ice Cream Division and elected a corporate Vice President in 1960. In 1964 he was elected an Executive Vice President, and was elected Vice Chairman effective Feb. 1, 1967.

CHEMICAL DIVISION

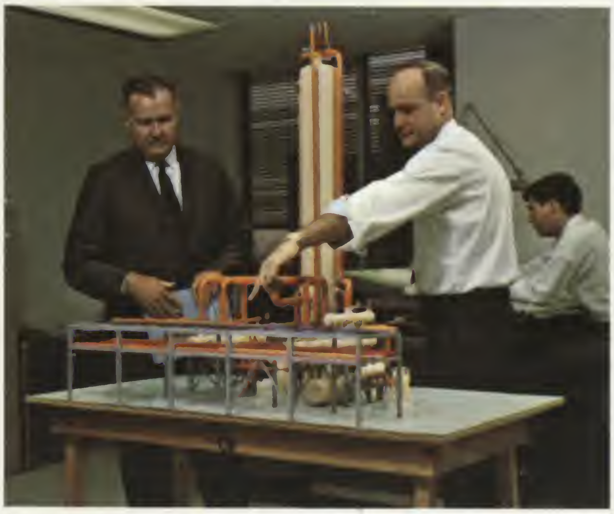
The Chemical Division set new highs in sales and operating profits in 1967. Net trade sales amounted to $341,668,097, or 21.5% of the corporate total, up from $327,865,603, or 21.2% of Company sales, a year earlier. Operating profits rose to $39,136,721 from $36,568,593 in 1966.

Three major factors prevented the Division from establishing even further gains in profits. A delay in the scheduled start-up of related ammonia-urea plants at its petrochemical complex at Geismar, La., added to shake-down costs and necessitated interim market purchases of raw materials. A prolonged strike virtually halted production at the Columbus Coated Fabrics operations in Columbus, O., which manufactures wall-coverings, upholstery materials, plastic laminates, and other vinyl-based consumer and industrial goods. Fertilizer operations were affected by a sharp rise in the price of sulphur, which, because of competitive conditions, could not be fully offset by higher prices for fertilizer products.

The Division benefited from an expansion of its consumer product line; a pickup in housing construction, which provides an important outlet for its plywood and particle board adhesives, and strong demand in the plastics sector of its business.

Six new consumer chemical products were introduced nationally under the Elmer's trade name. These were Heavy Grip Fixture Cement, Slide-All with Teflon, Panel Fast (an adhesive for the installation of wood panels), Clear Cement (dishwasher proof), Sno-Drift Paste, and School Glue, a white glue that launders out completely even after it has fully dried. The packaging for Elmer's Glue-All, the nation's largest selling white glue, was redesigned to include a new label and an exclusive non-clog, adjustable flow cap.

The position of the Mystik product line in mass merchandising outlets was strengthened with the introduction of a full 8-item line of transparent and "write-on"



John J. O'Connor (left), corporate Vice President and President of the Chemical Division, views a model of a section of a 1,000-ton-per-day ammonia plant that went into operation during the year at Geismar, La.

tapes in disposable and refillable plastic dispensers. Mystik entered the office-supply and commercial stationery fields with the introduction of a 36-item line of long-length tapes. For the industrial market, Mystik offered 14 new specialty tapes.

The entire Krylon line of spray paints and protective coatings was repackaged. A simplification of Krylon's line of automobile "touch-up" paints made possible an 80% reduction in dealer and plant inventories. Thirty-two new plastic housewares were marketed under the Lustro-ware brand.

Marcelle placed in national distribution five new hypo-allergenic cosmetic items and an Ultrafine series of five products specially compounded for dry, sensitive skin. John Robert Powers introduced four new product lines as well as four new specialty items.

Unit sales of Resinite polyvinyl chloride (PVC) packaging film climbed almost 50% with the introduction of new items and expansion of existing markets with established films. Two new transparent shrink films were developed for in-store packaging of meats, and a third was made available to industrial freezers of meat as a replacement for conventional freezer paper.

Two new Cilco inks were developed: Cilco Lith-LT, a major breakthrough in lithographic ink technology, and Cilc-N-Kote, a fast drying glycol-based ink for corrugated containers.

Under the Tykor brand, 16 new products — cleaners, safety solvents, rust and scale removers, paint strippers, and metal conditioners — were made available nationally to the metal working, equipment manufacturing, automotive and transportation industries.

The Division during 1967 placed four new plants in operation and substantially expanded the capacity of three existing facilities; at year end, it had four new plants under construction and was in the process of enlarging five others.

The petrochemical complex at Geismar was the center of much of the Division's building activity, and will continue to be over the next several years. The new ammonia and urea plants went into production during late summer.

At Borden locations elsewhere, a new phosphate feed supplements plant at Plant City, Fla., and a new farm chemicals plant at Kinston, N.C., began operations in May. Sixty field outlets for the sale of fertilizers were added during the year. Production of Resinite film

An ammonia plant, with a capacity of 1,000 tons per day, was added during the year to Borden's growing petrochemical complex at Geismar, La.

was increased 50% at North Andover, Mass. with the completion of new facilities, and a major expansion of PVC resins capacity occurred at Leominster, Mass. Rated output of urea and phenolic resins was increased at Bainbridge, N.Y.

At year end, a further expansion of methanol facilities was under way at Geismar, with completion in the first quarter of 1968. Also at Geismar, capacity for vinyl acetate and acetic acid was being enlarged. Elsewhere, work was in progress on a new cosmetics manufacturing and packaging plant at Bainbridge, N.Y., to be completed in the second quarter of 1968, and on a new nitrogen solutions operation at Logansport, Ind., that started up early in 1968. Expansion of PVC-related facilities was in process at year end at three locations: Columbus, O., for the manufacture of vinyl calendered products; North Andover, Mass., for the manufacture of biaxially oriented Resinite film, and Illiopolis, Ill., for the manufacture of PVC bottle compounds. At Northfield, Ill., facilities for making Mystik tapes are being enlarged 40%.

During 1968, a new formaldehyde plant, rated at 125,000,000 pounds per year, will be built at Springfield, Ore., and an ammonia terminal at Sioux City, Ia. Also at Springfield, urea and phenolic resins capacity will be increased by 50,000,000 pounds annually. Production of polyvinyl acetate will be expanded at Leominster, Mass., and Illiopolis, Ill.

The Borden Chemical Company (Canada) Ltd., a consolidated subsidiary operating under the supervision of the Chemical Division, placed a new formaldehyde plant in operation at West Hill, Ont., in late March. It supplements a facility at North Bay, Ont., and brings Borden's Canadian formaldehyde production to 75,000,000 pounds annually.

FOODS DIVISION

Record sales and operating profits were established by the Foods Division in 1967. Sales totaled $452,656,497, compared with $414,800,805 a year earlier. The Division accounted for 28.5% of total Company sales, up from 26.8% in 1966. Operating profits amounted to $26,675,705, against $24,047,781 in the previous year.

Profits would have increased further had the Division not encountered three highly unusual adverse factors. The reintroduction of instant nonfat dry milk throughout the country, following the withdrawal of the Starlac brand in November, 1966, was supported by heavy promotional and marketing efforts in order to quickly reestablish Borden's market position in the product. Unseasonably cool and wet summer weather reduced sales of beverages and drink mixes below anticipated levels. Seafood operations were affected by a deterioration of the shrimp market, brought about by an unprecedented catch of shrimp in the Gulf of Mexico, which depressed prices.

A factor contributing to the Division's improved results was an economic climate that favored the growth of convenience and specialty foods, to which the Division gave increased emphasis during the year. Other favorable factors were a further diversification of the product line, deeper market penetration, improved distribution efficiency, and greater productive capacity.

Almost two-score new products were introduced by the Division in 1967 on a national, regional, or test-market basis.

A major new food item was Kava, a 90% acid-free instant coffee, the first product of its kind. It underwent tests in initial markets in February, and will be generally available throughout the East and West in the spring of 1968.

Borden's Instant Nonfat Dry Milk achieved national distribution in August, only four months after its introduction. It is the first nonfat dry milk for consumer use to be manufactured under continuous inspection

A Borden Kitchen home economist pours a cup of new Kava 90% acid-free instant coffee for Hubert M. Tibbetts, corporate Vice President and President of the Foods Division. During the spring of 1968, distribution of Kava will be expanded to cover 50% of the U.S. population.

of the U.S. Department of Agriculture and to carry the Department's shield attesting to its quality.

Several new cheese products were developed for the consumer market, including the first grated 100% Parmesan cheese; Party Dip, a whipped cream cheese with condiments, and a sharp Cheddar cold pack cheese food. National distribution of singly wrapped cheese food slices, which were introduced in 1966, was completed by mid-year.

Among other new consumer food products introduced during the year were Borden's Onion Flavor Whipped Potatoes, two soup mixes and two drink mixes from Wyler, Aunt Jane's Ol' Timer Dills and Corn Relish, Comstock Mixed Bean Salad, and, in the Southwest, Bama peanut butter-and-jelly combination.

For entertaining at home, Old London introduced Sesame Rounds, Corn Pops, Onion Waffies, and Chick-a-dees; Wise offered Onion Flavored Rings, and Rea-Lemon marketed a line of Home Brand powdered cocktail mixes.

For the institutional market, Henderson made available a line of precooked items — beef patties, veal

Parmesan, and beef roast — as well as frozen whole catfish and catfish steaks; ReaLemon offered individual serving packets of reconstituted lemon juice, and the Division's cheese operations developed a 5-lb. loaf of thin-sliced processed cheese. The baking and candy trades were provided with four new Whitson-brand powdered flavor ingredients: butterscotch, toffee, sour cream, and Cheddar cheese.

The Division's pharmaceutical operations developed X-nog, a product for use in gastrointestinal X-ray examination, and three new infant-feeding products: Neo-Mull-Soy, a hypo-allergenic soy protein formula; Cho-Free, a related carbohydrate-free formula, and Bremil with Iron, a modified-milk product. Also in the area of infant care, the Division extended distribution of White Lamb throwaway diapers to areas representing 23% of the U.S. population with the introduction of new heavy-duty weight diapers in southern California, Rhode Island, and sections of Minnesota.

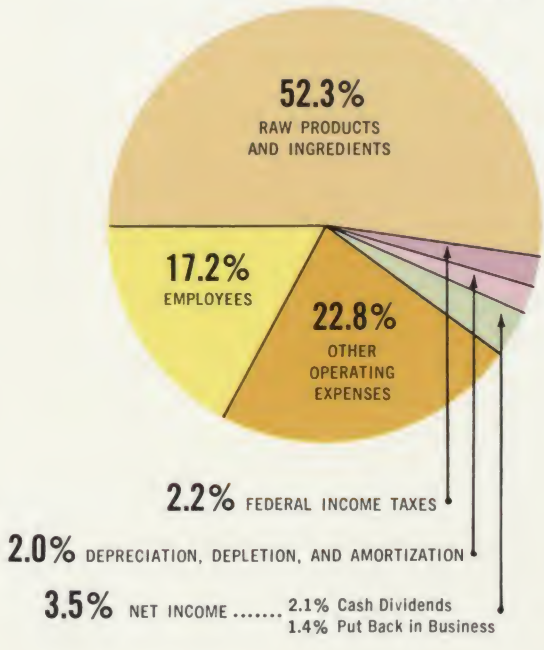
Building projects by the Division included a new plant in New York City for the manufacture of Old London snack foods, which went into production early in 1968. It has a capacity 80% greater than that of three Old London operations in the area, which it replaces. At Franklinton, La., facilities were added for the manufacture of creamed Creole cheese, and at Green Bay, Wisc., equipment was installed for making the newly developed 5-lb. thin-sliced process cheese loaf. Three new warehouses were completed during the year: for frozen and dry food products, at Little Rock, Ark.; for Aunt Jane's products, at Croswell, Mich., and for selected Comstock and Menner products, at Rushville, N.Y. A tank farm for the storage of lemon juice was constructed at Chicago, Ill.

A continued decline in the Division's sales of evaporated milk, reflecting an industry-wide trend, led to the closing of the Lewisburg, Tenn., plant. Operations were transferred to evaporated milk plants at Chester, S.C., and Wellsboro, Pa.

For 1968, the Division has scheduled several major building projects. Cracker Jack operations at Chicago will be substantially expanded with the construction of two plant extensions which will take a year to complete. At Berwick, Pa., Wise operations will add facilities for making Onion Flavored Rings, and build a shipping warehouse for all Wise products. A new waste treatment and disposal system will be installed at Waterloo, N.Y.

The Calo Pet Food Company was acquired by Borden in April for 328,480 shares of stock, and its operations assigned to the Foods Division. A leading manufacturer of canned dog and cat foods, Calo has headquarters and a plant in Oakland, Calif. Its products are distributed through grocery stores in 21 states in the East and West.

THE SALES DOLLAR
...how it was used



SALES
(thousands of dollars)

MILK AND ICE CREAM DIVISION

The Milk and Ice Cream Division in 1967 experienced a decline in sales and operating profits from a year earlier. Sales amounted to $681,383,085, or 42.9% of the corporate total, down from $695,196,002 in 1966, when they accounted for 45.0% of total Company sales. Operating profits were $23,899,080, compared with $30,046,959 in the previous year.

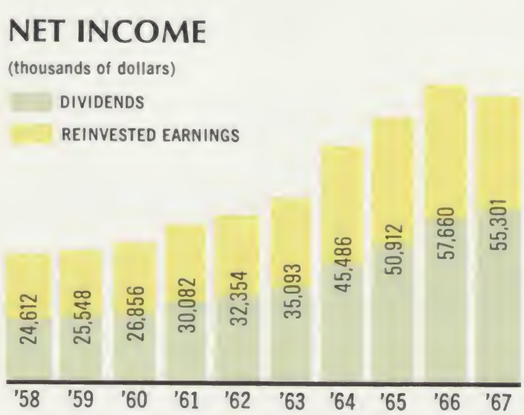
Two major factors, both highly unusual, brought about the decrease in sales and operating profits. Severe winter storms in the East and Midwest, and extremely cool and wet summer weather in almost all principal markets, were responsible for a drop in anticipated sales and a consequent sharp rise in operating costs. Sales of milk, and particularly of ice cream, were hurt by a series of rainy summer weekends and holidays; in good weather, consumption during these periods is traditionally the highest.

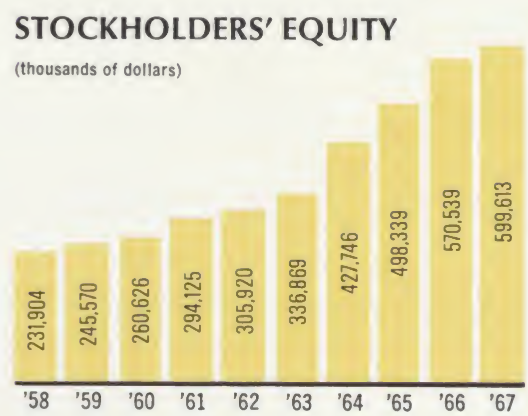
The Division's results were affected by a deterioration of market conditions in the Northeast. To partially offset the effects of these conditions, the Division withdrew from some unprofitable wholesale and retail milk delivery in the area and closed down two milk processing plants. The Division also incurred bad debts arising from the business failure of some customers, including distributors of Borden's milk.

During the year, the Division broadened its line of high-quality "filled" or imitation dairy products and extended distribution as marketing conditions permitted. By year end, Family Treat was available in sections of six states, and High Nine, in sections of two states. Both products are pasteurized, homogenized fluid milk substitutes that sell for less per quart than Borden's regular vitamin D milk; High Nine is fortified with the minimum adult daily requirements of nine vitamins and minerals.

Two other imitation products were introduced regionally during the year: Chok-o-lade chocolate milk and

Jack B. Pentz, corporate Vice President and President of the Milk and Ice Cream Division, poses alongside some of the products that were introduced or given broader distribution by the Division in 1967.





Zest sour cream. Distribution of imitation Half & Half and Holiday Nog, an imitation egg nog, was extended to several new markets.

Each of these products is made by substituting vegetable fat for the butterfat in milk or cream.

On a regional basis, the Division tested two fruit drinks directed at the youth market, Moon Dew and Green Lightning, and introduced under the Lady Borden brand name a new concept in sherbet: a premium-quality product with pieces of fruit and nut added. In all its ice cream markets in 40 states, the Division promoted 12 new flavors of ice cream, plus a variety of new frozen novelty items. The Division's sales and distribution of Swiss Style Yogurt were expanded.

During the year, the Division substantially enlarged its ice cream processing plant at Greenville, S.C., and its milk processing plant at High Point, N.C. In 1968, it will begin construction of one of the largest ice cream production-distribution centers in the United States, at Mineola, N.Y. The distribution facilities, serving the metropolitan New York area and northern New Jersey, are scheduled for completion in 1968; production facilities, with a capacity of more than 50,000 gallons of ice cream per day, the largest of any ice cream plant in the New York-New Jersey area, are slated for initial operation in late 1969.

The Division in 1968 will also undertake construction of a new cottage cheese and yogurt plant at Gustine, Calif., and a milk and ice cream distribution plant at Hickory, N.C. Completion is scheduled for 1969. Milk processing facilities at Indianapolis, Ind., Des Moines, Ia., and Houston, Tex.; ice cream manufacturing facilities at Baton Rouge, La., and Tampa, Fla., and milk processing and ice cream manufacturing facilities at Jackson, Miss., will be expanded during 1968, with completion scheduled for the following year.

In compliance with a consent order issued by the Federal Trade Commission in 1964, we sold the Carlson-Frink Company, a milk and ice cream operation headquartered in Denver, Col.; Continental Frozen Desserts, Oxon Hill, Md., and Hyde Park Dairy, Wichita, Kan.

DRAKE BAKERIES DIVISION

Sales of the Drake Bakeries Division reached new highs in 1967, but operating profits were virtually unchanged from the record levels of a year earlier. Accounting for 2.6% of the corporate total, sales amounted to $41,507,663, up from $39,838,430 in 1966, when they also represented 2.6% of Company sales. Operating profits were $3,534,865, compared with $3,532,361 in the previous year.

Profits were adversely affected by an eight-week strike at one of its four bakeries, at Roxbury, Mass., a suburb of Boston. In addition to cutting off supplies of some items made only at Roxbury, the strike necessitated a revamping of the Division's distribution system in order to serve the Boston market from other plants more than 200 miles distant; costs were up sharply as a result. A delay in the delivery of special machinery for producing newly developed snack items, plus problems encountered in starting up the machinery, contributed to higher unit costs. Absenteeism caused by riots forced a temporary closing of the Roxbury plant and curtailed operations at the Irvington, N.J., plant, which is on the boundary of Newark; the aftermath of the riots disrupted normal deliveries for an extended period.

Sales benefited from expanded distribution of new products, further market penetration, including additional supermarket outlets, and increased consumer acceptance of multi-unit snack items.

Theodore G. Montague, Jr. (right), corporate Vice President and President of the Drake Bakeries Division, checks a Family-Pack of Ring Ding Jr. cakes as it leaves the packaging line at the Irvington, N. J., plant. Multi-unit Family-Pack items accounted for an increased share of Drake sales.

During the year, Drake began serving customers in Baltimore, Md., and Wilmington, Del., from its own routes; previously, jobbers had been used. In 1967, for the first time, shipments of frozen Drake products were made to Puerto Rico.

The Division completed full distribution throughout its ten-state marketing area from Maine to Maryland of Family-Pack Devil Dogs, a ten-unit package of individually wrapped creme-filled devil's food snacks. The product was introduced in 1966. Two new snack items were placed in test markets: Drake's Coffee Cake Jr., a miniature French Coffee cake, and Drake's Frosti Devils, a chocolate-coated devil's food cake; each is individually wrapped in a Family Pack of 12 units. Full distribution of these items is scheduled for the second quarter of 1968.

THE BORDEN COMPANY, LIMITED

Sales of The Borden Company, Limited, our consolidated Canadian subsidiary, increased from a year ago, but operating profits declined. Sales, representing 4.5% of our corporate total, were $71,210,694 (U.S. dollars), up from $67,808,980 in 1966, when they accounted for 4.4% of total Company sales. Operating profits amounted to $1,519,717 (U.S. dollars), compared with $2,519,236 a year earlier.

Many of the factors that adversely affected results of our U.S. operations were also encountered by the Canadian company, including the business failure of some owner-distributors of Borden's milk and an unusually cool summer which hurt sales of ice cream and beverages. Also, the Canadian company was faced with substantial pre-operational and break-in costs of the new milk and ice cream plant in Montreal, Que., operated by its affiliate, J. J. Joubert, Limitée, and of new facilities for milk specialties at Toronto, Ont.

The new facilities at Toronto represent a major expansion of a milk and ice cream plant that opened in 1962. At full production, they will provide a daily output of 5,000 pounds of cottage cheese and 500 gallons of sour cream, yogurt, and chip dip.

Several new products were introduced in 1967, principally in the provinces of Ontario and Quebec, which constitute our Canadian milk and ice cream markets. Frosted Shake, a powder made with ice cream mix to which milk is added, was marketed in three flavors in Ontario, with national distribution planned for 1968. A soft margarine was introduced in Ontario, while in Ottawa, Ont., and Quebec a semi-sterile cream was

Mills L. Marrs, who became President of The Borden Company, Limited, on Jan. 1, 1968, displays a few of the several hundred products tailored by this consolidated subsidiary to the preferences of the Canadian market.

marketed in ⅝ oz. containers for commercial use. Raymond's Nut Shops Limited, a leading manufacturer of snack foods which Borden acquired in 1966, introduced five new items for distribution throughout Canada.

The Toronto Division extended milk distribution to Owen Sound, Uxbridge, Huntsville, and Parry Sound in Ontario with the granting of franchises to distributors. Borden dairy specialties such as cottage cheese and yogurt were made available to customers in Bowmanville and Oshawa, Ont., with the appointment of two dairies as distributors in those areas.

The Board of Directors of The Borden Company, Limited, on Dec. 13 elected Mills L. Marrs to succeed Jean J. Charest as President, effective Jan. 1, 1968. Mr. Charest continues as Chairman of the Board and as a Director. Mr. Marrs joined the Canadian company in 1937, and at the time of his election as President was Vice President in charge of the Foods Division, a position he had held for ten years. He has been a Director of the Canadian company since 1957.

OPERATIONS ABROAD

Although confronted in varying degrees with inflation, currency devaluation, and other adjustments of the national economies in which they operate, our unconsolidated foreign subsidiaries nonetheless experienced substantial improvement in aggregate results, setting

new highs in sales and in operating net income before an unrealized exchange loss. Market expansion, particularly beyond national boundaries, increased productive capacity, and greater emphasis on the consumer sector of their business were the major factors responsible for the improvement.

Sales of our unconsolidated operations abroad totaled \$133,909,462, an increase of 9.1% from \$122,720,330 in 1966, the previous high. Our equity in their net income was \$6,330,643, after providing for an unrealized exchange loss of \$1,409,255. This compares with equity in net income of \$6,822,858 a year earlier, after an unrealized exchange loss of \$191,200. The unrealized exchange loss resulted principally from the translation of net current assets to their U.S. dollar equivalent, at rates of exchange prevailing on Dec. 31 of each year.

After applicable U.S. income taxes, dividends paid by these unconsolidated subsidiaries to the Company and included in its net income amounted to \$3,340,190 compared with \$3,352,877 in 1966. Our equity in their undistributed earnings was \$2,426,493, and at year end our equity in their net assets exceeded our investments and advances by \$35,319,081.

Our unconsolidated foreign subsidiaries secured about \$4,700,000 worth of plant and equipment in 1967, up from approximately \$4,500,000 in the preceding year. In keeping with the voluntary guidelines proposed by the Administration to reduce the balance-of-payments deficit, all financing was generated abroad. In 1968, the budget calls for \$4,500,000 worth of new plant and equipment for our overseas operations, including \$560,000 as the value of leased equipment.

Our foreign unconsolidated chemical operations placed four new plants in operation during 1967 and at year end had nine others under construction.

At Davao, on Mindanao Island, The Philippines, a new synthetic resins plant began operations in January. In July, three new facilities went on stream: a phenolic moulding compounds plant at Atazapan, Mexico; a plant at Granville, near Sydney, Australia, for the manufacture of Resinite polyvinyl chloride packaging film, and a synthetic resins plant at Managua, Nicaragua.

At year end, formaldahyde and resins plants were under construction at Recife, Brazil; near Newcastle, England, and at Melbourne, Australia. The Brazilian and British facilities are scheduled for completion in October, 1968; the Australian facilities, during the second quarter of 1968. At Granville, a plant for the manufacture of hexamethylenetetramine, which is used as a curing agent in resins and as a raw material, is targeted for operation during the second quarter of 1968. Resinite film operations abroad will be further expanded with the construction of a new plant at Mexico City, scheduled to go on stream in July, 1968, and the enlargement of an existing plant near Southampton, England, set for completion in January, 1969.

In 1968, a major expansion of the methanol plant at Cubatao, Brazil, will get under way. Upon completion in the first quarter of 1970, it will bring total capacity to 100 metric tons per day at that location.

During the year, Borden and Wasabrod Aktiebolag, of Filipstad, Sweden, the world's largest processor of crisp breads, jointly formed Old London Wasa A.B. The company will produce and market snack products, including potato chips, Cheez Doodles, popcorn, pretzels and peanuts. Old London Wasa will make use of a plant under construction by Wasabrod at Filipstad, scheduled for completion in May, 1968, and will market its line of snack foods in Sweden, Norway, Denmark, Finland and West Germany.

Snack foods were added to the product line of Gallina Blanca, S.A., our Spanish affiliate, with the completion in May of manufacturing facilities at San Juan Despi, near Barcelona. The Foods Division's Henderson operations established seafood processing, freezing and storage facilities at Bélem, Brazil, which will be supplied by a fleet of shrimp and fishing trawlers operating in the Amazon River basin. Equipment for processing breaded shrimp was added near Cayenne, French Guiana.

At year end, Henderson had a meat processing and freezing plant under construction at Dublin, Ireland; to be completed in May, 1968, it will have an annual capacity of about 7,000,000 pounds of processed meats. Five trawlers will be added to Henderson's fleet at Puntarenas, Costa Rica. The Borden Company A/S Denmark in 1968 will add to its facilities at Esbjerg a new warehouse for powdered whole milk. Gallina Blanca will undertake a major expansion of its dry soup-processing operations in the coming year.

Weber GmbH & Co. KG, which operates under the supervision of the Drake Bakeries Division, began an expansion of its bakery operations at Pfungstadt, West Germany, which will increase present capacity by 75% upon completion in 1969.

Consolidated Income and Retained Earnings

THE BORDEN COMPANY AND CONSOLIDATED SUBSIDIARIES

	Year Ended December 31 1967	1966
NET SALES	**$1,588,426,036**	$1,545,509,820
OTHER INCOME (Includes interest and dividends — 1967, $6,678,741; 1966, $6,172,448)	**8,377,094**	8,352,424
TOTAL	**1,596,803,130**	1,553,862,244
LESS		
Cost of goods sold	**1,320,319,775**	1,290,101,569
Selling, general and administrative expenses and other charges	**176,781,660**	162,360,014
Interest expense	**9,302,743**	5,344,085
U.S. and Canadian federal income taxes	**35,098,308**	38,396,922
TOTAL	**1,541,502,486**	1,496,202,590
NET INCOME for the year	**55,300,644**	57,659,654
RETAINED EARNINGS at beginning of year (1967 includes retained earnings of $3,119,131 of Calo Pet Food Company at Jan. 1, 1967, less 1967 dividend of $116,600)	**297,318,186**	268,634,144
TOTAL	**352,618,830**	326,293,798
DIVIDENDS PAID ($1.20 a share in each year)	**33,186,940**	31,978,143
RETAINED EARNINGS at end of year	**$ 319,431,890**	$ 294,315,655
Average number of shares of capital stock outstanding during year	**27,705,031**	26,730,599
Net income per share	**$2.00**	$2.16

See pages 21 and 22 for Notes to Financial Statements.

Consolidated Balance Sheet

THE BORDEN COMPANY AND CONSOLIDATED SUBSIDIARIES

ASSETS	December 31 1967	1966
CURRENT ASSETS		
Cash (Including time deposits)	**$ 56,221,187**	$ 48,898,044
U.S. Government and other marketable securities (At cost which approximates market)	**52,050,823**	6,334,637
Receivables	**156,265,604**	150,550,519
Inventories (At lower of cost or market)		
Finished goods	**131,094,202**	118,795,110
Materials and supplies	**56,866,590**	52,849,187
TOTAL CURRENT ASSETS	**452,498,406**	377,427,497
OTHER ASSETS (At Cost)		
Investments and advances		
Foreign subsidiary companies	**19,086,782**	18,569,687
Domestic associated companies	**3,944,016**	4,026,916
Securities on deposit (Pursuant to Workmen's Compensation Laws)	**1,614,547**	1,569,288
Receivables, mortgages, etc.	**11,466,769**	13,062,474
TOTAL OTHER ASSETS	**36,112,114**	37,228,365
PROPERTY AND EQUIPMENT (At Cost)		
Land	**26,337,991**	25,044,680
Buildings	**174,694,283**	169,415,296
Machinery, equipment, etc.	**434,859,949**	397,146,471
TOTAL PROPERTY AND EQUIPMENT	**635,892,223**	591,606,447
Less accumulated depreciation	**243,424,258**	225,281,303
NET PROPERTY AND EQUIPMENT	**392,467,965**	366,325,144
DEFERRED CHARGES	**11,496,437**	9,749,247
INTANGIBLES	**119,022,556**	119,253,987
TOTAL	**$1,011,597,478**	$909,984,240

See pages 21 and 22 for Notes to Financial Statements.

LIABILITIES

	December 31 1967	December 31 1966
CURRENT LIABILITIES		
Payables and accrued liabilities	**$ 116,689,235**	$121,015,350
Accrued taxes	**15,744,286**	24,229,428
TOTAL CURRENT LIABILITIES	**132,433,521**	145,244,778
LONG-TERM DEBT	**241,431,369**	158,526,433
RESERVES		
Deferred federal taxes on income	**30,952,942**	28,565,672
Insurance	**7,166,299**	7,108,618
TOTAL RESERVES	**38,119,241**	35,674,290
STOCKHOLDERS' EQUITY		
Capital Stock — par value $3.75 per share		
Authorized 37,000,000 shares		
Outstanding	**104,591,250**	102,210,000
Employees' stock purchase installments	**—**	5,795,588
Capital surplus	**175,590,207**	168,217,496
Retained earnings	**319,431,890**	294,315,655
TOTAL STOCKHOLDERS' EQUITY	**599,613,347**	570,538,739
TOTAL	**$1,011,597,478**	$909,984,240

	Shares 1967	Shares 1966
Issued	28,054,600	27,427,956
Less treasury stock	163,600	171,956
Outstanding	27,891,000	27,256,000

Statement of Consolidated Resources Provided and Applied

THE BORDEN COMPANY AND CONSOLIDATED SUBSIDIARIES

	Year Ended December 31 1967	1966
RESOURCES PROVIDED BY		
Net income for the year	**$ 55,300,644**	$ 57,659,654
Depreciation, depletion and amortization	**32,099,411**	28,449,037
Fair value of stock issued for purchase of businesses	**285,750**	41,965,552
Proceeds from capital stock issued under stock option plans, installment payments under the Employees Stock Purchase Plan, etc.	**3,196,857**	7,068,235
Increase in long-term debt	**82,904,936**	28,248,918
Working capital at Jan. 1, 1967, of Calo Pet Food Company	**3,126,034**	—
	$176,913,632	$163,391,396
RESOURCES APPLIED TO		
Cash dividends	**$ 33,186,940**	$ 31,978,143
Additions to property and equipment — net	**58,242,232**	89,208,412
Net increase (decrease) in intangibles	**(231,431)**	31,555,591
Increase in working capital	**87,882,166**	5,667,433
Capital stock purchased for the treasury	**22,875**	2,515,733
Increase (decrease) in miscellaneous assets and reserves — net	**(2,189,150)**	2,466,084
	$176,913,632	$163,391,396

See pages 21 and 22 for Notes to Financial Statements.

BASIS OF CONSOLIDATION, ETC.: The consolidated financial statements include all significant domestic subsidiaries and all Canadian subsidiaries. Net current assets of the Canadian subsidiaries were translated at the rate of exchange prevailing at year end; other assets and liabilities at rates as of dates of origin; and net income items (other than depreciation) at the rate of exchange prevailing at the end of each month. During 1967, Calo Pet Food Company was acquired in exchange for 328,480 shares of the Company's capital stock. This combination has been accounted for as a pooling of interests and the 1967 financial statements include the Calo accounts for the entire year; 1966 financial statements have not been restated since the effect would not be significant. On page 23 appears financial information concerning foreign subsidiaries not consolidated and dividends received from them by the Company.

LONG-TERM DEBT: Obligations were outstanding at Dec. 31, 1967, as follows:

	Long-Term	*Due Within One Year*
Sinking fund debentures:		
2⅞%, due 1981	$ 37,693,000	—
4⅜%, due 1991	46,000,000	$1,932,000
5¾%, due 1997	75,000,000	—
Promissory notes:		
3½%, due 1973	800,000	50,000
Assumed from acquired companies:		
5⅕%, due 1979	735,000	73,000
5¼%, due 1978	770,000	80,000
5⅜%, due 1981	10,100,000	500,000
5⅝%, due 1979	580,000	50,000
Long-term lease obligations	69,753,369	6,565,793
	$241,431,369	$9,250,793

The aggregate maturities of the notes and the sinking fund requirements on the debentures payable in each year 1969 through 1972 are as follows: 1969, $3,053,000; 1970, $3,246,000; 1971, $4,303,000; and 1972, $4,303,000.

Certain equipment for which the Company has entered into lease arrangements is accounted for as purchased equipment. Such arrangements require payment in annual amounts of approximately $9,000,000 for equipment which was operational at Dec. 31, 1967. Payments will be required in annual amounts of approximately $4,600,000 for equipment in process of installation when such equipment becomes operational.

CAPITAL SURPLUS: Capital surplus was credited during 1967 with $7,874,330, the excess of the purchase price over par value of 298,164 shares newly issued pursuant to employee stock option and purchase plans, etc., and with $252,000, representing the excess of fair value over par value of 9,000 shares reissued for an acquired business. Capital surplus was charged with $20,460, the excess of cost over par of 644 shares acquired; $648,800, representing excess of par value of 328,480 shares issued over the par value of common stock of Calo Pet Food Company in a pooling of interests, and $84,359, representing costs incident to this pooling.

STOCK OPTION AND PURCHASE PLANS: On Jan. 1, 1967, there were 292,093 shares of capital stock of the Company reserved for unexercised stock options. During the year optionees purchased 38,463 shares and options for 3,592 shares were cancelled. At Dec. 31, 1967, there were 250,038 shares reserved for unexercised options. As to the 1967 Stock Option Plan, which is subject to approval by the stockholders, see page 6.

On Jan. 1, 1967, there were also 279,666 shares subscribed to under the Employees Stock Purchase Plan and 986,119 shares were available for future offerings. During the year, subscriptions for 20,980 shares were cancelled; 2,638 shares were issued under the Plan for retired and deceased participants, and 256,048 shares were issued under the second offering at a price of $31.88 per share, which represented 85% of the fair market value on the expiration date of the purchase period, July 31, 1967. At Dec. 31, 1967, 1,007,099 shares were available for future offerings.

DEPRECIATION, DEPLETION, AND RENTALS: Depreciation, depletion, and amortization of property and equipment charged to operations amounted to $32,099,411 for 1967. Rentals amounted to approximately $17,300,000, of which $10,300,000 was related to long-term leases (excluding leased equipment accounted for as purchased equipment) that had initial lease periods generally from eight to ten years.

▪ DEFERRED FEDERAL TAXES ON INCOME: The Company provides out of income amounts equal to the reduction in federal income tax resulting from the use, for income tax reporting only, of accelerated methods of depreciation. The amount so provided in 1967 and included in the reserve for deferred federal taxes on income was $2,387,270. The 1967 investment credit of $4,200,000 was recorded as a reduction of the provision for federal income taxes.

▪ RETIREMENT PLANS: The charge to operations in 1967 under the Company's retirement plans, which cover those employees who are not members of collective bargaining units as well as certain employees who are members of such units, was $5,540,000 (including amortization of prior service costs over a 30-year period). The Company's policy is to fund pension costs accrued. The actuarially computed value of vested benefits under the plans as of April 1, 1967, exceeded the total pension funds and balance sheet accruals by approximately $21,809,000. During 1967 the Company made certain amendments to the plans and certain changes in actuarial assumptions and in the period over which the prior service credits are to be amortized; such amendments and changes did not have any significant effect upon the Company's net income.

Operations were also charged during the year with approximately $4,236,000, consisting of payments to pension trusts on behalf of certain employees covered by collective bargaining units who have not elected to participate in the Company's plans and of retirement allowances paid to former employees under arrangements in effect prior to the inception of the present plans.

▪ CONTINGENCIES: The Company was guarantor of loans aggregating approximately $44,000,000 at Dec. 31, 1967, of which $23,810,000 represented the Company's portion of guarantees of loans payable by domestic associated companies.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS
TWO BROADWAY, NEW YORK, N. Y. 10004

FEBRUARY 27, 1968

To the Stockholders and Board of Directors of The Borden Company:

We have examined the consolidated balance sheet of The Borden Company and Consolidated Subsidiaries as of December 31, 1967 and the related statements of consolidated income and retained earnings and of consolidated resources provided and applied for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the companies at December 31, 1967 and the results of their operations and their resources provided and applied for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

Foreign Subsidiaries Not Consolidated

COMBINED BALANCE SHEETS

	December 31 1967	December 31 1966
Current assets	**$ 52,393,134**	$ 48,425,953
Investments and advances		
50% owned companies — equity in net assets	**13,277,791**	12,515,157
Other	**3,491,879**	3,478,877
Property and equipment (Less accumulated depreciation)	**32,956,343**	29,652,575
Deferred charges	**2,173,958**	2,551,442
Intangibles	**1,846,490**	1,883,497
TOTAL ASSETS	**106,139,595**	98,507,501
Current liabilities	**31,471,416**	29,101,871
Long-term debt	**10,451,346**	9,059,733
Reserves	**1,241,851**	1,093,632
LIABILITIES AND RESERVES	**43,164,613**	39,255,236
Net assets	**62,974,982**	59,252,265
Less minority interest	**8,569,119**	7,789,990
COMPANY'S EQUITY IN NET ASSETS	**$ 54,405,863**	$ 51,462,275

COMBINED STATEMENTS OF INCOME

	Year Ended December 31 1967	Year Ended December 31 1966
Net sales	**$133,909,462**	$122,720,330
Share of net income — 50% owned companies	**927,337**	245,633
Other income	**3,805,529**	2,267,757
TOTAL	**138,642,328**	125,233,720
Less		
Cost of goods sold	**101,388,191**	90,222,711
Selling, general and administrative expenses and other charges	**22,874,065**	21,135,857
Interest expense	**1,895,273**	1,788,485
TOTAL	**126,157,529**	113,147,053
Income before foreign income taxes and other charges	**12,484,799**	12,086,667
Less		
Foreign income taxes	**3,710,018**	3,874,027
Minority interest	**1,034,883**	1,198,582
COMPANY'S EQUITY (Before unrealized exchange loss)	**7,739,898**	7,014,058
Company's portion of unrealized exchange loss — subsidiaries and 50% owned companies	**1,409,255**	191,200
COMPANY'S EQUITY IN NET INCOME	**$ 6,330,643**	$ 6,822,858
Dividends to the Company	**$ 3,904,150**	$ 3,903,027
Less U.S. income tax applicable thereto	**563,960**	550,150
Remainder included in Company's net income	**$ 3,340,190**	$ 3,352,877

The above combinations include the financial statements of all majority-owned foreign subsidiaries. The various foreign currencies were translated generally into their U. S. dollar equivalent in accordance with the practice for Canadian subsidiaries referred to in the Notes to Financial Statements on page 21.

Ten Year Historical Summary

THE BORDEN COMPANY AND CONSOLIDATED SUBSIDIARIES

OPERATING (thousands of dollars—except per sales dollar and per share statistics)

For the Year	Net Sales	Payrolls	Taxes (U.S. & Canadian Federal Income)	Depreciation, Depletion, and Amortization	Net Income	Net Income Per Sales Dollar	Net Income Per Share*	Cash Dividends	Cash Dividends Per Share*
1967	$1,588,426	$273,123	$35,098	$32,099	$55,301	3.48¢	$2.00	$33,187	$1.20
1966	$1,545,510	$263,817	$38,397	$28,449	$57,660	3.73¢	$2.16	$31,978	$1.20
1965	$1,385,518	$240,832	$36,086	$25,814	$50,912	3.67¢	$2.03	$27,493	$1.09½
1964	$1,293,439	$231,975	$35,937	$24,796	$45,486	3.52¢	$1.87	$22,377	$1.00
1963	$1,118,875	$201,640	$30,614	$19,948	$35,093	3.14¢	$1.62	$19,107	$ .88¾
1962	$1,047,902	$193,460	$29,110	$17,846	$32,354	3.09¢	$1.53	$17,998	$ .85
1961	$1,009,665	$191,863	$28,631	$17,448	$30,082	2.98¢	$1.42	$15,451	$ .75
1960	$ 956,014	$182,732	$24,405	$15,017	$26,856	2.81¢	$1.36	$14,857	$ .75
1959	$ 941,326	$178,847	$23,728	$15,057	$25,548	2.71¢	$1.31	$13,696	$ .70
1958	$ 915,024	$178,811	$21,632	$15,393	$24,612	2.69¢	$1.27	$13,614	$ .70

FINANCIAL (thousands of dollars) / OTHER

As of Dec. 31	Working Capital	Current Ratio**	Inventories	Property and Equipment	Accumulated Depreciation	Net Property and Equipment	Long-Term Debt	Stockholders' Equity	Number of Stockholders at Year End	Average Number of Employees
1967	$320,065	3.42:1	$187,961	$635,892	$243,424	$392,468	$241,431	$599,613	74,505	39,225
1966	$232,183	2.60:1	$171,644	$591,606	$225,281	$366,325	$158,526	$570,539	70,853	39,654
1965	$227,846	2.86:1	$140,463	$481,507	$204,959	$276,548	$102,290	$498,339	55,392	37,045
1964	$199,584	2.70:1	$129,865	$452,170	$193,670	$258,500	$102,650	$427,746	51,280	36,024
1963	$172,632	2.81:1	$102,097	$382,445	$162,986	$219,459	$ 92,750	$336,869	48,566	32,051
1962	$165,068	2.97:1	$ 93,373	$367,284	$158,626	$208,657	$ 94,800	$305,920	48,919	30,994
1961	$177,314	3.13:1	$ 85,639	$348,388	$154,171	$194,217	$ 96,100	$294,125	49,524	32,128
1960	$126,206	3.08:1	$ 74,527	$316,910	$143,639	$173,271	$ 47,150	$260,626	48,954	31,944
1959	$124,418	2.71:1	$ 69,516	$305,407	$142,375	$163,032	$ 48,200	$245,570	47,942	32,165
1958	$124,255	2.67:1	$ 67,011	$292,358	$139,211	$153,146	$ 50,250	$231,904	48,358	33,718

*Adjusted for 2-for-1 stock splits in 1960 and 1965.

**Ratio of current assets to current liabilities.

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